

PONTIAC ACADEMY FOR EXCELLENCE
Pontiac, Michigan

FINANCIAL STATEMENTS
June 30, 2006

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Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
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INDEPENDENT AUDITOR'S REPORT

November 9, 2006

To the Board of Directors
Pontiac Academy for Excellence

We have audited the accompanying financial statements of the governmental activities and the aggregate remaining fund information of Pontiac Academy for Excellence as of and for the year ended June 30, 2006, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Pontiac Academy for Excellence's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the aggregate remaining fund information of the Pontiac Academy for Excellence as of June 30, 2006, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors
Pontiac Academy for Excellence
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In accordance with *Government Auditing Standards*, we have also issued a report dated November 9, 2006 on our consideration of the Academy's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pontiac Academy for Excellence's basic financial statements. The accompanying required supplemental information and other supplemental information, as identified in the table of contents, are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Pontiac Academy for Excellence. The required supplemental information is required by the Governmental Accounting Standards Board; the other supplemental information is presented for the purpose of additional analysis. The required supplemental information, the other supplemental information and schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gardner, Provenzano, Schawman & Thomas P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

**PONTIAC ACADEMY FOR EXCELLENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

This section of the Pontiac Academy for Excellence annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2006. Please read it in conjunction with the Academy's basic financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Pontiac Academy for Excellence financially as a whole. The Academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy-wide financial statement by providing information about the Academy's funds.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Academy-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information – General Fund

Other Supplemental Information

Reporting the Academy as a Whole – Academy-wide Financial Statements

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

**PONTIAC ACADEMY FOR EXCELLENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**Reporting the Academy as a Whole – Academy-wide Financial Statements
(continued)**

These two statements report the Academy's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The statement of net assets and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, community, food service and athletics. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

Reporting the Academy's Most Significant Fund – Fund Financial Statements

The Academy's fund financial statements provide detailed information about the individual funds – not the Academy as a whole. Some funds are required to be established by State law and by bond covenants. However, the Academy establishes other funds to help it control and manage money for particular purposes (the Food Service Fund, for example).

Governmental Fund – All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

**PONTIAC ACADEMY FOR EXCELLENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The Academy is the trustee, or fiduciary, for its student activity funds. All of the Academy's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the Academy's other financial statements because the Academy cannot use these assets to finance its operations. The Academy is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The Academy as a Whole

Table 1

Assets	2006	2005
Current and other assets	\$ 1,549,463	\$ 1,637,747
Capital assets -		
Net of accumulated depreciation	789,382	636,248
Total Assets	<u>2,338,845</u>	<u>2,273,995</u>
Liabilities		
Current liabilities	791,933	1,151,598
Noncurrent liabilities	1,068	13,953
Total Liabilities	<u>793,001</u>	<u>1,165,551</u>
Net assets		
Invested in capital assets -		
Net of related debt	773,108	568,840
Unrestricted	772,736	539,604
Total Net Assets	<u>\$ 1,545,844</u>	<u>\$ 1,108,444</u>

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net assets were \$1,545,844 at June 30, 2006. Capital assets, net of related debt totaling \$733,108, compares the original cost, less depreciation of the Academy's capital assets to long-term debt used to finance the acquisition of those assets. The debt will be repaid from general fund revenue as the debt service comes due. The remaining amount of net assets \$772,736 was unrestricted.

The \$772,736 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the general fund will have a significant impact on the change in unrestricted net assets from year to year.

**PONTIAC ACADEMY FOR EXCELLENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

The Academy as a Whole (continued)

The results of this year's operations for the Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for fiscal years 2006 and 2005.

	Table 2	
	Governmental Activities	
	2006	2005
Revenue		
Program revenue:		
Grants	\$ 1,648,529	\$ 1,503,206
General revenue		
State foundation allowance	6,750,281	5,807,205
Other	284	693
Special item-Loss on disposal of capital assets	-	(17,023)
Total Revenue and Special Item	<u>8,399,094</u>	<u>7,294,081</u>
Function/Program expenses		
Instruction	3,770,806	3,513,520
Support services	3,297,413	2,637,902
Food services	569,995	475,119
Athletics	120,522	54,662
Community services	16,475	25,995
Interest on long-term debt	10,745	11,641
Depreciation (unallocated)	175,738	131,125
Total function/program expenses	<u>7,961,694</u>	<u>6,849,964</u>
Increase (decrease) in Net Assets	<u>\$ 437,400</u>	<u>\$ 444,117</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$7,961,694. Certain activities were partially funded by other governments that subsidized certain programs with \$1,648,529 in grants. We paid for the remaining "public benefit" portion of our governmental activities with \$6,750,281 in state foundation allowance, and with our other revenues.

The Academy experienced an increase in net assets of \$437,400. This increase was mainly due to several positions not filled for the whole year at the Academy and some budgeted activities not taking place, along with switching from a management company operation to self management.

The Academy's Funds

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources the State and others provide to it and may provide more insight into the Academy's overall financial health.

**PONTIAC ACADEMY FOR EXCELLENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

The Academy's Funds (continued)

As the Academy completed this year, the governmental funds reported a combined fund balance of \$772,734, which is an increase of \$233,132 in the general fund from last year.

Although revenues were not as high as anticipated and transfers to other funds were higher than budgeted, the general fund balance still increased. This increase was mostly due to less than anticipated expenditures in capital outlay for the library, less personnel costs and activities not occurring throughout the year. In addition, an on site accountant was brought in to help control costs.

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

First Versus Final Budget

The original budget for 2005-2006 was created by the departing management company. Under the management company's oversight expenses were grouped under the wrong function codes. When the Academy switched to self management, changes were made to align expenses with the proper function codes as prescribed by the State's 1022 manual.

Revenue was adjusted as follows:

- State funding was decreased due to the actual student count lower than expected. The original budget was set based on an enrollment of 1,100, but the actual enrollment was 972.
- Federal revenue was higher than expected due to an increase in Title I funding.

Expenditures were adjusted as follows:

- Basic programs and added needs expenditures were decreased due to the need for fewer staff than originally projected. There was also a high level of employee turnover leading to lower salary expenditures.
- Adjustments were made to the other expenditures based on what was actually being spent throughout the year.

**PONTIAC ACADEMY FOR EXCELLENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Final Budget Versus Actual Results

The significant variance in revenue is as follows:

- The variance of \$230,203 in federal revenue was a combination of Title I, Title II A, and e-rate funds carried over to the 2006-2007 year.

Significant variances in expenditures are as follows:

- The variance of \$83,484 in instructional staff was mostly due to approximately \$60,000 not expended for library books and other library capital outlay. The Academy was fortunate enough to receive donated books for the library.
- The variance in general administration and school administration offset each other due to the principal salary and benefits inadvertently budgeted in general administration, but correctly posting to school administration.
- The variance in community service is due to the parent resource coordinator not employed until March of 2006. In addition, not all the enrichment activities planned took place due to the lack of qualified individuals available to teach those activities.
- The transfer to food service was more than anticipated due to a higher cost for food. In addition, athletic expenditures were more than anticipated, resulting in a larger transfer than budgeted. This was the first year the Academy participated in the Michigan High School Athletic Association; therefore the budget was the best estimate at the time of adoption.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2006, the Academy had \$789,382 invested in capital assets. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$153,154, or 24%, from last year.

	<u>2006</u>	<u>2005</u>
Leasehold Improvements	\$ 213,510	\$ 138,657
Furniture and equipment	1,439,797	1,263,764
Computer equipment	<u>180,702</u>	<u>102,716</u>
Total Capital Assets	1,834,009	1,505,137
Less Accumulated Depreciation	<u>1,044,627</u>	<u>868,889</u>
Net Capital Assets	<u>\$ 789,382</u>	<u>\$ 636,248</u>

**PONTIAC ACADEMY FOR EXCELLENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Capital Assets (continued)

This year's additions of \$328,872 included leasehold improvements, various furniture and equipment, and computer equipment. No new debt was issued for any additions.

For the 2006-2007 year, the Academy has plans for approximately \$145,000 in capital outlay to further equip newly constructed areas.

Debt

At the end of this year, the Academy had \$16,274 in long-term debt outstanding versus \$66,462 in the previous year – a change of 75.5 percent. Long-term debt consists solely of capital lease obligations.

We present more detailed information about our long-term liabilities in the notes to the financial statements.

At this time, there are no plans for any additional long-term debt.

Economic Factors and Next Year's Budgets and Rates

Many factors are considered when setting the Academy's budget for the 2006-2007 fiscal year. One of the biggest factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2006-2007 year is 25 percent of the February 2006 student count, and 75 percent of the September 2006 student count. The 2006-2007 budget was adopted in June as based on a projection of what the Academy's September student count would be. The actual September student count was slightly lower than the estimate used for the budget, and as such the revenue from the state foundation allowance will be slightly lower than anticipated. Approximately 80 percent of the Academy's revenue is from the foundation allowance. As a result the budget has been amended as required by state law, based on the actual student count.

The Academy has also undergone construction to add additional High School and Central Office space to the existing building. The Academy has incurred expenditures of approximately \$145,000 for furniture and equipment for the newly constructed areas in the 2006-2007 fiscal year.

BASIC FINANCIAL STATEMENTS

Pontiac Academy for Excellence
District Wide
Statement of Net Assets
June 30, 2006

	Governmental Activities
Assets	
Cash & cash equivalents	\$ 182,125
Due from other governmental units	1,349,016
Prepays	18,322
Capital assets less accumulated depreciation	789,382
Total Assets	<u>2,338,845</u>
Liabilities	
Accounts payable	345,078
Accrued liabilities	291,026
Due to other governmental units	3,760
Deferred revenue	136,863
Leases payable due within one year	15,206
Leases payable due in more one year	1,068
Total Liabilities	<u>793,001</u>
Net Assets	
Invested in capital assets net of related debt	773,108
Unrestricted	772,736
Total Net Assets	<u>\$ 1,545,844</u>

The accompanying notes are an integral part of these financial statements.

Pontiac Academy for Excellence
District Wide
Statement of Activities
For the Year Ended June 30, 2006

			Net (Expense) Revenue and Changes In Net Assets
Functions/Programs	Expenses	Operating Grants and Contributions	Governmental Activities
Instruction	\$ 3,770,806	\$ 958,303	\$ (2,812,503)
Support services	3,297,413	288,390	(3,009,023)
Community services	16,475	-	(16,475)
Food services	569,995	401,836	(168,159)
Athletics	120,522	-	(120,522)
Interest on long-term debt	10,745	-	(10,745)
Depreciation (unallocated)	175,738	-	(175,738)
Totals	<u>\$ 7,961,694</u>	<u>\$ 1,648,529</u>	<u>(6,313,165)</u>
General revenues:			
State aid - unrestricted			6,750,281
Other			<u>284</u>
Total General Revenues			6,750,565
Change in Net Assets			437,400
Net Assets - Beginning of Year			1,108,444
Net Assets - End of Year			<u>\$ 1,545,844</u>

The accompanying notes are an integral part of these financial statements.

Pontiac Academy for Excellence
Balance Sheet
June 30, 2006

	General Fund	Food Service	Athletics	Totals
<u>Assets</u>				
Cash & cash equivalents	\$ 182,125	\$ -	\$ -	\$ 182,125
Due from other governmental units	1,349,016	-	-	1,349,016
Prepaid expenditures	18,322	-	-	18,322
Total Assets	<u>\$ 1,549,463</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,549,463</u>
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accounts payable	\$ 345,078	\$ -	\$ -	\$ 345,078
Accrued liabilities	291,026	-	-	291,026
Due to other governmental units	3,760	-	-	3,760
Deferred revenue	136,863	-	-	136,863
Total Liabilities	<u>776,727</u>	<u>-</u>	<u>-</u>	<u>776,727</u>
<u>Fund Balance</u>				
Unreserved and undesignated	772,736	-	-	772,736
Total Fund Balance	<u>772,736</u>	<u>-</u>	<u>-</u>	<u>772,736</u>
Total Liabilities and Fund Balance	<u>\$ 1,549,463</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,549,463</u>

The accompanying notes are an integral part of these financial statements.

Pontiac Academy for Excellence
Reconciliation of Balance Sheet of Governmental Funds To Net Assets
June 30, 2006

Total Fund Balances - Governmental Funds	\$ 772,736
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
The cost of the capital assets is	1,834,009
Accumulated depreciation is	(1,044,627)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Capital leases	<u>(16,274)</u>
Total Net Assets - Governmental Activities (Academy Wide)	<u><u>\$ 1,545,844</u></u>

The accompanying notes are an integral part of these financial statements.

Pontiac Academy for Excellence
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2006

	General	Food Service	Athletics	Totals
Revenue				
Local	\$ 33,988	\$ -	\$ -	\$ 33,986
State	7,362,748	12,811	-	7,375,559
Federal	800,524	389,025	-	989,549
Total Revenue	<u>7,997,258</u>	<u>401,836</u>	<u>-</u>	<u>8,399,094</u>
Expenditures				
Instruction				
Basic programs	2,860,143	-	-	2,860,143
Added needs	1,112,175	-	-	1,112,175
Support Services				
Pupil	229,010	-	-	229,010
Instructional staff	203,225	-	-	203,225
General administration	669,900	-	-	669,900
School administration	654,610	-	-	654,610
Business	95,993	-	-	95,993
Operation and maintenance	1,425,697	-	-	1,425,697
Pupil transportation services	88,303	-	-	88,303
Central services	60,035	-	-	60,035
Community services	16,475	-	-	16,475
Food service	-	569,995	-	569,995
Athletics	-	-	120,522	120,522
Debt service	61,879	-	-	61,879
Total Expenditures	<u>7,475,445</u>	<u>569,995</u>	<u>120,522</u>	<u>8,165,962</u>
Excess (Deficiency) of				
Revenues over Expenditures	521,813	(168,159)	(120,522)	233,132
Other Financing Sources (Uses)				
Sources	-	168,159	120,522	288,681
Uses	(288,681)	-	-	(288,681)
Total Other Financing Sources (Uses)	<u>(288,681)</u>	<u>168,159</u>	<u>120,522</u>	<u>-</u>
Net Change in Fund Balance	233,132	-	-	233,132
Fund Balance, Beginning	539,604	-	-	539,604
Fund Balance, Ending	<u>\$ 772,736</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 772,736</u>

The accompanying notes are an integral part of these financial statements.

Pontiac Academy for Excellence
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2006

Net Change in Fund Balances - Governmental Funds	\$ 233,132
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are capitalized and depreciated over their estimated useful lives.	
Depreciation expense	(175,738)
Capital outlay	328,872
Repayment of principal is an expenditure in the governmental funds, but not in the statement of activities	
Capital leases	50,188
Accrued interest payable is not included as a liability in governmental funds	946
Change in Net Assets of Governmental Activities (Academy Wide)	<u>\$ 437,400</u>

The accompanying notes are an integral part of these financial statements.

Pontiac Academy for Excellence
Fiduciary Fund
Statement of Fiduciary Net Assets
June 30, 2006

Assets	
Cash, student organizations	\$ 269
Total Assets	<u>\$ 269</u>
Liabilities	
Due to student organizations	\$ 269
Total Liabilities	<u>\$ 269</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

**PONTIAC ACADEMY FOR EXCELLENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 1--Summary of Significant Accounting Policies

The accounting policies of Pontiac Academy for Excellence (the Academy) conform to accounting principles generally accepted in the United States of American (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy.

Reporting Entity

The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

On January 27, 1997, the Academy entered into a five-year contract with the Saginaw Valley State University Board of Trustees to charter a public school academy, which was subsequently extended through June 30, 2009. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the state constitution. The Saginaw Valley State University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Saginaw Valley State University Board of Trustees three percent of the state aid foundation as administrative fees. The total administrative fees for the year ended June 30, 2006, to the Saginaw Valley State University Board of Trustees was \$202,508.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the public school academy. Based on application of the criteria, the entity does not contain component units.

Academy-wide and Fund Financial Statements

The Academy-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy-wide activities are considered governmental activities.

**PONTIAC ACADEMY FOR EXCELLENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 1—Summary of Significant Accounting Policies (continued)

Academy-wide and Fund Financial Statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are normally reported as separate columns in the fund financial statements. The Academy has elected to show all funds. Neither the food service nor the athletics fund would have been determined as major funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Academy-wide Financial Statements – The Academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Academy.

**PONTIAC ACADEMY FOR EXCELLENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 1--Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Fiduciary fund statements are also reported using the economic resources measurement focus and accrual basis of accounting. The Student Activities Agency Fund is maintained to record the transactions of the student group for school and school related purposes. The fund is segregated and held in trust for the students.

The Academy reports the following major governmental fund:

The general fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

Additionally, the Academy reports the following fund type:

The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Academy's special revenue funds includes the food services fund and athletics fund. Any operating deficit generated by these activities is the responsibility of the general fund.

Assets, Liabilities, and Net Assets or Equity

Cash – Cash includes cash on hand and demand deposits.

Receivables – The Academy receivables consist of revenue earned at year-end but not yet received.

Prepaid Costs – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both Academy-wide and fund financial statements.

Capital Assets – Capital assets, which include leasehold improvements, furniture and fixtures, and computer equipment, are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure type assets.

**PONTIAC ACADEMY FOR EXCELLENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 1--Summary of Significant Accounting Policies (continued)

Leasehold improvements, furniture and equipment, and computer equipment are depreciated using the straight-line method over the following useful lives:

Leasehold improvements	6-12 years
Furniture and other equipment	7 years
Computer equipment	5 years

Long-term Obligations – Consists of the Academy's capital leases.

Accounts Payable – Accounts payable consists of items which the Academy benefited during the current year but has not yet paid.

Accrued Liabilities – Accrued liabilities are items related to personnel costs.

Deferred Revenue – Deferred revenue represents amounts for which the Academy has received but has not earned at year-end. At June 30, 2006, the deferred revenue was from Title I and Section 31a funds received but not spent.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. At June 30, 2006, the Academy had no reserved or designated fund balance.

NOTE 2--Stewardship, Compliance and Accountability

Budgetary Information – Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, and object. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits academies to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The Academy adjusted budgeted amounts during the year in response to actual and projected activity.

**PONTIAC ACADEMY FOR EXCELLENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 2--Stewardship, Compliance and Accountability (continued)

Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds – During the year, the Academy incurred expenditures in the general fund, which were in excess of the amounts budgeted, as illustrated in the supplemental information.

NOTE 3--Deposits and Investments

State statutes authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan; the Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority.

The Academy has designated one bank for the deposit of its funds. The Academy's cash is subject to custodial credit risk.

After June 30, 2006, the Academy adopted an investment policy.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy evaluates financial institutions and only those with an acceptable risk level for custodial risk are used for the Academy's deposits. At year-end, the Academy's deposit balance of \$258,007 had \$158,007 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits.

PONTIAC ACADEMY FOR EXCELLENCE
NOTES TO FINANCIAL STATEMENTS

NOTE 4—Capital Assets

Capital asset activity of the Academy' governmental activities was as follows:

	Balance July 1, 2005	Additions	Disposals	Balance June 30, 2006
Capital assets subject to depreciation				
Leasehold improvements	\$ 138,657	\$ 74,853	\$ -	\$ 213,510
Furniture and equipment	1,263,764	176,033	-	1,439,797
Computer equipment	102,716	77,986	-	180,702
Subtotal	<u>1,505,137</u>	<u>328,872</u>	<u>-</u>	<u>1,834,009</u>
Accumulated depreciation				
Leasehold improvements	10,025	15,498	-	25,523
Furniture and equipment	837,948	127,516	-	965,464
Computer equipment	20,916	32,724	-	53,640
Subtotal	<u>868,889</u>	<u>175,738</u>	<u>-</u>	<u>1,044,627</u>
Total Net Capital Assets	<u>\$ 636,248</u>	<u>\$ 153,134</u>	<u>\$ -</u>	<u>\$ 789,382</u>

Depreciation expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

NOTE 5—Operating Leases

During the year ended June 30, 2005, the Academy entered into a lease agreement for a building through June 30, 2015. Rent expense is calculated based on a set amount per square foot of leased space, adjusted for consumer price index each year. The amount expensed under the lease for the year ended June 30, 2006 was \$1,008,808. Minimum estimated annual payments required under the lease are as follows:

For the Year Ended June 30,	Payments
2007	\$ 1,251,074
2008	1,288,600
2009	1,327,260
2010	1,367,075
2011	1,408,088
2012 and after	<u>6,067,641</u>
	<u>\$ 12,709,738</u>

The Academy also has leases for its copiers. The amount expensed under the leases for the year ended June 30, 2006 was \$19,404. Subsequent to year end, the Academy consolidated the leases for new copiers.

**PONTIAC ACADEMY FOR EXCELLENCE
NOTES TO FINANCIAL STATEMENTS**

NOTE 6--Long-term Debt

Long-term debt activity can be summarized as follows:

	Balance July 1, 2005	Additions	Retirements	Balance June 30, 2006	Current Portion
Governmental Activities					
Capital leases	\$ 66,462	\$ -	\$ 50,188	\$ 16,274	\$ 15,206
Totals	<u>\$ 66,462</u>	<u>\$ -</u>	<u>\$ 50,188</u>	<u>\$ 16,274</u>	<u>\$ 15,206</u>

Capital Leases – The Academy has entered into various lease agreements as lessee for financing the purchase of various equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations are as follows:

Year Ended	Principal	Interest	Total
2007	\$ 15,206	\$ 996	\$ 16,202
2008	1,068	38	1,106
Totals	<u>\$ 16,274</u>	<u>\$ 1,034</u>	<u>\$ 17,308</u>

The total amount of capital leases recorded as assets is \$187,700.

NOTE 7--Contracts

Effective July 1, 2005, the Academy signed a transitional management consulting agreement with Charter Management Alternative, LLC through June 30, 2007, to assist the Academy in the transition from being operated by a management company to self management. The Academy will subcontract all employees from Charter School Services of Michigan, LLC and reimburse all personnel related expenses. The agreement requires future minimum payments to Charter Management Alternative, LLC of \$300,000 for the June 30, 2007 fiscal year. The amount expensed for the year ended June 30, 2006 was \$400,000.

NOTE 8--Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The risk of employee injuries and medical benefits for employees of the management company is covered by insurance held by the employee leasing company discussed in Note 8. The Academy has purchased commercial insurance for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

PONTIAC ACADEMY FOR EXCELLENCE
NOTES TO FINANCIAL STATEMENTS

NOTE 9--Short-Term Debt

During the year, the Academy borrowed \$1,255,000 in a state aid anticipation note. The note bore interest at 4.72 percent and was paid in full at June 30, 2006. The following are the changes in short-term debt:

	Balance July 1, 2005	Additions	Retirements	Balance June 30, 2006
Governmental Activities				
State Aid anticipation note	\$ -	\$ 1,255,000	\$ 1,255,000	\$ -
Totals	\$ -	\$ 1,255,000	\$ 1,255,000	\$ -

The proceeds from the State Aid anticipation note were used to sustain operations until the Academy received State Aid.

NOTE 10--Subsequent Event

Subsequent to year-end, the Academy borrowed \$1,250,000 at 4.96 percent annual interest rate on a state aid anticipation note.

Subsequent to year-end, the Academy consolidated several copier leases into one lease.

NOTE 11--Grant Program

All grant programs are subject to a final audit from the grantor agency, the outcome of which may or may not result in disallowed costs that the Academy may be required to pay back.

NOTE 12--Interfund Transfers

Fund	Transfer In	Fund	Transfer Out
Food Service	\$ 168,159	General	\$ 168,159
Athletics	120,522	General	120,522
	\$ 288,681		\$ 288,681

The transfers to the food service and athletics funds were to subsidize those programs.

REQUIRED SUPPLEMENTAL INFORMATION

Pontiac Academy for Excellence
Budgetary Comparison - General Fund
For the Year Ended June 30, 2006

	General Fund			Variance
	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
Revenue				
Local	\$ 12,000	\$ 33,702	\$ 33,986	\$ 284
State	8,320,400	7,397,060	7,362,748	(34,312)
Federal	703,703	830,727	600,524	(230,203)
Total Revenues	<u>9,036,103</u>	<u>8,261,489</u>	<u>7,997,258</u>	<u>(264,231)</u>
Expenditures				
Instruction				
Basic programs	3,748,001	2,874,660	2,860,143	14,517
Added needs	1,271,667	1,174,679	1,112,175	62,504
Support Services				
Pupil	141,931	241,222	229,010	12,212
Instructional staff	248,540	286,709	203,225	83,484
General administration	687,122	780,332	669,900	110,432
School administration	767,092	519,635	654,610	(134,975)
Business	63,500	163,579	95,993	67,586
Operation and maintenance	1,520,064	1,483,530	1,425,697	57,833
Pupil transportation services	35,000	65,000	86,303	(21,303)
Central services	-	67,850	60,035	7,815
Community services	20,000	82,920	16,475	66,445
Outgoing transfers and debt service	309,962	259,561	350,560	(90,999)
Total Expenditures	<u>8,812,879</u>	<u>7,999,677</u>	<u>7,764,126</u>	<u>235,551</u>
Excess (Deficiency) of Revenues Over Expenditures	223,224	261,812	233,132	(28,680)
Fund Balance - Beginning of Year	539,604	539,604	539,604	-
Fund Balance - End of Year	<u>\$ 762,828</u>	<u>\$ 801,416</u>	<u>\$ 772,736</u>	<u>\$ (28,680)</u>

OTHER SUPPLEMENTAL INFORMATION



Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

November 9, 2006

Board of Directors
Pontiac Academy for Excellence

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pontiac Academy for Excellence as of and for the year ended June 30, 2006, and have issued our report thereon dated November 9, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pontiac Academy for Excellence's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion in the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Directors
Pontiac Academy for Excellence
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pontiac Academy for Excellence's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we have reported to the management of the Pontiac Academy for Excellence in a separate letter dated November 9, 2006.

This report is intended solely for the information and use of the Board, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gardner, Brownjohn, Schauman & Thomas, P. C.

Certified Public Accountants



**Gardner | Provenzano
Schauman & Thomas**

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR-A133**

November 9, 2006

Board of Directors
Pontiac Academy for Excellence

Compliance

We have audited the compliance of Pontiac Academy for Excellence with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The major federal programs of Pontiac Academy for Excellence are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Pontiac Academy for Excellence's management. Our responsibility is to express an opinion on Pontiac Academy for Excellence's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pontiac Academy for Excellence's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Pontiac Academy for Excellence's compliance with those requirements.

As described in item 06-01 in the accompanying schedule of findings and questioned cost, Pontiac Academy for Excellence did not comply with requirements regarding reporting that are applicable to Title 1. Compliance with such requirements is necessary, in our opinion, for Pontiac Academy for Excellence to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Pontiac Academy for Excellence complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Pontiac Academy for Excellence is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Pontiac Academy for Excellence's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion of compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Pontiac Academy for Excellence's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 06-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that

Board of Directors
Pontiac Academy for Excellence
Page Three

might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the Board, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sardner, Proenyanos, Schauman & Thomas P.C.

Certified Public Accountants

Pontiac Academy for Excellence
Schedule of Expenditures of Federal Awards
For Fiscal Year Ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued or (Deferred) Revenue at July 1, 2005	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued or (Deferred) Revenue at June 30, 2006
Clusters:								
Child Nutrition Cluster								
U.S. Department of Agriculture								
Passed Through MDE								
National School Breakfast Program								
061970 Breakfast (2005-2006)	10.553	\$ 73,359	\$ -	\$ -	\$ -	\$ 71,592	\$ 73,359	\$ 1,767
051970 Breakfast (2004-2005)		11,506	-	-	-	11,506	11,506	-
Total		84,865	-	-	-	83,098	84,865	1,767
National School Lunch Program								
061950 & 061960 Lunch (2005-2006)	10.555	213,948	-	-	-	207,892	213,948	6,056
051950 & 051960 Lunch (2004-2005)		38,840	-	-	-	38,840	38,840	-
Total		252,788	-	-	-	246,732	252,788	6,056
Total Child Nutrition Cluster		337,653	-	-	-	329,830	337,653	7,823
Other Federal Awards:								
U.S. Department of Education:								
Passed through MDE:								
Technology Literacy Challenge Grants	84.318							
Project number 054290 0506		5,000	-	-	-	2,500	5,000	2,500
Project number 064290 0506		12,408	-	-	-	7,408	6,615	(793)
Total Technology Literacy Challenge Grants		17,408	-	-	-	9,908	11,615	1,707
Title I	84.010							
Project number 031530 0203		262,823	262,823	-	(1,200)	-	-	-
Project number 041530 0304		284,649	320,622	-	(35,973)	-	-	-
Project number 051530 0405		424,876	-	(18,648)	-	-	18,648	-
Project number 061530 0506		585,947	-	-	-	510,000	438,666	(71,334)
Total Title I		1,558,295	583,445	(18,648)	(37,173)	510,000	457,314	(71,334)

See Notes to Schedule of Expenditures of Federal Awards.

Pontiac Academy for Excellence
Schedule of Expenditures of Federal Awards
For Fiscal Year Ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued or (Deferred) Revenue at July 1, 2005	Adjustments and Transfers	Current Year Receipts (Cash Basis)	Current Year Expenditures	Accrued or (Deferred) Revenue at June 30, 2006
Handicapped Preschool Project Number 060440 SPSR	84.027	3,760	-	-	(3,760)	3,760	-	-
Title V	84.288							
Project Number 050250 0405		13,551	13,502	(49)	-	-	49	-
Project Number 060250 0508		11,522	-	-	-	7,000	8,906	1,906
Total Title V		25,073	13,502	(49)	-	7,000	8,955	1,906
Improving Teacher Quality	84.387							
Project number 060520 0506		58,012	-	-	-	40,000	50,875	10,875
Project number 060520 0405		50,604	45,770	(4,834)	-	-	4,834	-
Total Improving Teacher Quality		106,616	45,770	(4,834)	-	40,000	55,709	10,875
Total non cluster programs passed through MDE		1,711,152	642,717	(23,531)	(40,933)	570,888	533,593	(56,846)
Passed through Oakland County-RESA IDEA:	84.207A							
Project number 050460		1,117	-	-	-	1,117	1,117	-
Project number 050450		1,787	-	-	-	1,787	1,787	-
Project number 060450		114,047	-	-	-	114,047	114,047	-
Project number 060460		1,661	-	-	-	1,661	1,661	-
Project number 040450		46,070	-	46,070	-	46,070	-	-
Project number 050450		68,840	-	68,073	-	68,073	-	-
Total non cluster programs passed Oakland County-RESA		233,502	-	114,143	-	232,735	118,592	-
U.S. Depart. of Agriculture								
Passed through MDE Food Distribution:								
Entitlement Commodities	10.550	47,844	-	-	-	47,844	47,844	-
Bonus Commodities		3,628	-	-	-	3,628	3,628	-
Total USDA Non-Cluster Programs		51,372	-	-	-	51,372	51,372	-
Total Federal Financial Assistance		\$ 2,333,679	\$ 642,717	\$ 90,612	\$ (40,933)	\$ 1,184,605	\$ 1,041,210	\$ (49,023)

See Notes to Schedule of Expenditures of Federal Awards.

PONTIAC ACADEMY FOR EXCELLENCE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1--Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Pontiac Academy for Excellence and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2--Grant Section Auditor's Report

Management has utilized Form R-7120 in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

NOTE 3--Adjustment

The adjustments on the schedule of expenditures of federal awards are as a result of adjustments to the Title I grants for the 2002-2003 fiscal year and the 2003-2004 fiscal year. These adjustments were as a result of findings from the 2005-2006 fiscal year audit. In addition, funds for the Handicapped Pre School grant were adjusted as a reduction in funding as found on the September 30, 2006 R-7120

NOTE 4--Reconciliation of Revenue Reported in the Financial Statements with the Expenditures of Federal Awards

Federal expenditures as reported on the Schedule of Expenditures of Federal Awards	\$ 1,041,210
Adjustment to Title I 031530 0203	(1,200)
Adjustments to Title I 041530 0304	(35,973)
Grants expended but funds not requested within the period of availability	
Title V	(1,906)
Technology Literacy Challenge Grants	(1,707)
Improving Teacher Quality	(10,875)
Federal revenue as reported on the fund level statements	<u>\$ 989,549</u>

PONTIAC ACADEMY FOR EXCELLENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

Section 1 – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major program(s)?

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not Considered to be material weaknesses? ☒ Yes ☐ None reported

Type of auditor's report issued on compliance for major program(s): Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of major program(s):

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.555, 10.553	Child Nutrition Cluster
84.010	Title I

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low risk auditee? ☐ Yes ☒ No

See Notes to Schedule of Expenditures of Federal Awards.

PONTIAC ACADEMY FOR EXCELLENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

Section II – Financial Statement Audit Findings

<u>Reference Number</u>	<u>Findings</u>
None	

See Notes to Schedule of Expenditures of Federal Awards.

**PONTIAC ACADEMY FOR EXCELLENCE
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Section III – Federal Program Audit Findings

<u>Reference Number</u>	<u>Findings</u>
06-01	<p>Program Name – CFDA # 84.010 – Title I</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Material noncompliance, reportable condition</p> <p>Criteria – In accordance with the approved grant agreement, actual expenditures reported on the final expenditure report are required to be incurred in accordance with the approved budget and reported as spent.</p> <p>Condition – The final expenditure report submitted on January 9, 2006 did not agree with supporting documentation.</p> <p>Questioned Costs – Unknown</p> <p>Context – The final expenditure report submitted on January 9, 2006 reported expenditures that did not agree with the supporting documentation found. The documentation found to support the Title I expenditures indicated the grant was spent in different functions than reported on the final DS-4044.</p> <p>Cause and Effect – The final expenditure report for this grant award did not report how the expenditures were actually spent.</p> <p>Recommendation – The Academy should use the accounting records to prepare the final DS-4044.</p> <p>Views of Responsible Officials and Planned Corrective Actions – The DS-4044 for the 2004-2005 Title I Grant was prepared by the Imagine Schools which previously managed the Academy. Since separating from them and becoming self managed, the Academy has hired an on staff accountant who will file the DS-4044. The DS-4044 will be completed based on actual accounting records which will accurately state the expenditures for the grant.</p>

See notes to Schedule of Expenditures of Federal Awards.

PONTIAC ACADEMY FOR EXCELLENCE
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

Section III – Federal Program Audit Findings

<u>Reference Number</u>	<u>Findings</u>
05-01	<p>Program Name – CFDA # 84.010 – Title I</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Material noncompliance, reportable condition</p> <p>Condition – The Academy paid for supplies, textbooks, and services with federal funds that were not supported by proper documentation (\$2,000) or were not included in the approved budget (\$8,108).</p> <p>Recommendation – The Academy should have the appropriate personnel reviewing invoices and supporting evidence to ensure compliance with the approved grant agreement.</p> <p>Views of Responsible Officials and Planned Corrective Actions – The Academy has recently reorganized under self management and in doing so has aligned budget items and expenditures with the approved Title I application. Responsible Individuals have been identified to oversee ordering with a submission of invoice to the finance office which is responsible for checking for validating and alignment with grant applications.</p> <p>Current Status – Corrective action was taken. No similar finding was noted in the 2006 audit.</p>

See Notes to Schedule of Expenditures of Federal Awards.

**PONTIAC ACADEMY FOR EXCELLENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Section III – Federal Program Audit Findings (continued)

<u>Reference Number</u>	<u>Findings</u>
05-02	<p>Program Name – CFDA # 84.010 – Title I</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Other noncompliance, reportable condition</p> <p>Condition – The final expenditure report submitted by November 29, 2004 indicated that the grant award was fully expended. However, final expenditures for this grant award were incurred through February 2005.</p> <p>Recommendation – The Academy should maintain accounting records that clearly identify all federally funded expenditures. Furthermore, those accounting records should directly support amounts reported on the yearly final expenditures report.</p> <p>Views of Responsible Officials and Planned Corrective Actions – The Academy has been subjected to clearing all payments and invoices through the previous management company who was responsible for timing of the charges to the grant. The Academy staff now controls this responsibility and has established timelines and deadlines for all individuals who have responsibility for spending in the grants, which will result in timely reporting of expenditures in the appropriate fiscal year.</p> <p>Current Status – Corrective action was taken. No similar finding in the 2006 audit.</p>

See Notes to Schedule of Expenditures of Federal Awards.

PONTIAC ACADEMY FOR EXCELLENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

Section III – Federal Program Audit Findings (continued)

Reference Number	Findings
05-03	<p>Program Name – CFDA # 84.010 – Title I</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Material noncompliance, reportable condition</p> <p>Condition – Personnel costs paid with federal grants funds were not properly supported by documentation and certain personnel charged to the grant were not included in the approved budget.</p> <p>Recommendation – In order to maintain adequate internal control over payroll expenditures, additional procedures should be adopted by the Academy to ensure employees are paid for the actual hours worked at the current approved pay rate for federal programs. In addition, only those personnel included in the approved grant budget should be reimbursed by the federal grant unless reallocation of grant funds is approved by the granting agency.</p> <p>Views of Responsible Officials and Planned Corrective Actions – The Academy is establishing a procedure whereby professional staff retained for summer school programs will be issued added compensation contracts that will identify the rate of pay for the number of hours to be worked. Daily attendance logs will support actual payout through the payroll processing. Individuals will be identified and appropriately classified under the grant fund as approved. Hourly staff retained for service during summer school will be required to maintain time logs through the electronic clock in and clock out systems the Academy utilizes.</p> <p>Current Status – Corrective action was taken. No similar finding was noted in the 2006 audit.</p>

See notes to Schedule of Expenditures of Federal Awards.

**PONTIAC ACADEMY FOR EXCELLENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Section III – Federal Program Audit Findings (continued)

<u>Reference Number</u>	<u>Findings</u>
05-04	<p>Program Name – CFDA # 10.555: National School Lunch and CFDA # 10.553: National School Breakfast</p> <p>Pass-through Entity – United States Department of Education</p> <p>Finding Type – Material noncompliance</p> <p>Condition – The Academy used a computer based system to track the number of meals served and this supported the monthly reimbursement claims submitted to the State of Michigan. The Academy could not regenerate this data from the database system to support the monthly reimbursement claims submitted to the State of Michigan.</p> <p>Recommendation – The Academy should retain the reconciliation of reimbursable meals, counted at the point of service by category, to the monthly reimbursement claims. These records should be kept for a period of three years. In addition, the Board should approve all food service contract renewals and submit to the Michigan Department of Education.</p>

PONTIAC ACADEMY FOR EXCELLENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

Section III – Federal Program Audit Findings (continued)

<u>Reference Number</u>	<u>Findings</u>
05-04	<p>Views of Responsible Officials and Planned Corrective Actions – The Academy contracts the meal service through an outside agency, which has systems established to track the daily meal services. Records are produced daily and summarized in a weekly report. These reports are used to establish the monthly reimbursement claim submitted to the state. Through system problems, these reports were eliminated at the close of last fiscal before printing necessary hard copies to support the claim. The Academy has taken steps to ensure that the records will be backed up on separate systems in order to prevent such an occurrence in the future. The contract of food service is on a three-year award basis with an annual review. Initial contracts were approved by the Board and submitted to the Department of Educations through the previous management company. No hard copy was provided to the Academy. The contract is up for bid at the end of this fiscal year and it is the intent of the Academy to bid the service and maintain the files on site for future review as needed.</p> <p>Current Status – The Academy did not keep paper copies of the daily counts by category. However, the Academy was able to reprint daily count records that did agree with the three monthly reimbursements tested. We recommend the Academy print out the daily count sheets for the remainder of the year, ensure they agree with the monthly reimbursements and keep those records for three years.</p> <p>We found evidence to support the food service contract was bid for the 2006-2007 fiscal year.</p> <p>View of Responsible Officials and Planned Corrective Action – 2006 response – The Academy currently prints daily rosters and daily counts of all students that receive free, reduced, or paid lunches. In addition, monthly summaries of the amounts of free, reduced and paid lunches are also printed and kept on file.</p>

See Notes to Schedule of Expenditures of Federal Awards.

**PONTIAC ACADEMY FOR EXCELLENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

Section III – Federal Program Audit Findings (continued)

<u>Reference Number</u>	<u>Findings</u>
05-05	<p>Program Name – Child Nutrition Cluster</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Material noncompliance</p> <p>Condition – Pontiac Academy for Excellence did not complete the on-site review prior to February 1.</p> <p>Recommendation – Pontiac Academy for Excellence should conduct on-site reviews on an annual basis prior to February 1 and document the reviews on the form created by the State of Michigan or on an internally developed form that meets all of the requirements.</p> <p>Views of Responsible Officials and Planned Corrective Actions – The Academy, due to its relationship with the former management company, was not asked to conduct such an internal review as required, nor was the Academy staff provided with needed information to alert them to such a review process. Through the recent audit proceedings, the Academy staff is now fully aware of such requirements and will conduct such a review during the month of January each school year.</p> <p>Current Status – We found the Academy did not complete an on-site review. However, upon investigation we found that since the Academy has only one building and one meal drop off site, an on site review is not required. Since the Academy has multiple points of service, an on site review is highly recommended.</p>

See Notes to Schedule of Expenditures of Federal Awards.

PONTIAC ACADEMY FOR EXCELLENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

Section III – Federal Program Audit Findings (continued)

<u>Reference Number</u>	<u>Findings</u>
05-06	<p>Program Name – CFDA #84.010 – Title I</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Other noncompliance</p> <p>Condition – The Academy could not support that all teachers hired after the first day of school for the 2002-03 school year and working in a program supported by Title I were highly qualified.</p> <p>Recommendation – The Academy should implement procedures to evaluate all teachers supported by the Title I program to ensure that they meet the highly qualified rules under the No Child Left Behind Act of 2001.</p> <p>Views of Responsible Officials and Planned Corrective Actions – The Academy has instituted procedures at the beginning of this school year to ensure that all teaching staff and classroom based support staff are highly qualified. Individuals who will be utilized for the summer school programs in the future will be drawn from this pool of highly qualified individuals.</p> <p>Current Status – Corrective action was taken. No similar finding was noted in the 2006 audit.</p>

See Notes to Schedule of Expenditures of Federal Awards.



Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

November 7, 2006

Board of Directors
Pontiac Academy for Excellence
Pontiac, Michigan

In planning and performing our audit of the financial statements of the Academy for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during the course of our audit we became aware of a matter that is an opportunity for strengthening internal control and operating efficiency. This letter summarizes our comments and suggestions regarding that matter. This letter does not affect our report dated November 7, 2006. They are as follows:

Board Minutes

Board minutes are an important part of the Academy's history. Because of this, we believe the minutes should be as accurate as possible. We noted that the July 18, 2006 Board minutes had text repeated from the June 20, 2006 Board minutes.

We recommend that care be taken to make sure the approved minutes for each month are an accurate account of the meeting.

Credit Cards

We noted that significant Academy purchases have been made using employee credit cards. The employees were then reimbursed for the purchase. We are concerned that internal controls could be bypassed in this process.

We recommend, that whenever possible, purchases be made using either funds of the Academy or the Academy's credit card.

Board of Directors
Pontiac Academy for Excellence
November 7, 2006
Page Two

Food Service

As part of our testing of the food service program, we compared three months of meals ordered against three months of meals served. Of the three months tested, the highest percentage of meals served versus ordered was 65% and the lowest was 52%. For the month of January, it appears as though some days the number of lunches ordered was greater than the student count of the Academy.

We recommend that the numbers of meals ordered each day for both breakfast and lunch be evaluated in order to reduce the cost of the food service program and to eliminate waste.

Significant Contracts

We had difficulty obtaining significant contracts and leases in a timely manner in order to complete the audit. We realize that this year was a transition for the Academy, however, we believe copies of all contracts and leases should be available on site. In addition, we recommend that copies of all contracts and leases be copied and distributed to the individual responsible for the general ledger and financial statement preparation.

Capital Outlay

We noted that items not meeting the capitalization policy of \$500 were posted to capital outlay accounts. We recommend that postings to capital outlay accounts be reviewed to ensure the items meet the Academy's policy. Also, it would facilitate year end audit preparation if a capital asset book was established to include the most recent capital assets capitalization policy and copies of invoices for capital asset purchases.

In addition, we believe that the Board should reconsider the \$500 threshold and consider raising that amount to \$1,000.

Accounting Software

During the course of fieldwork we noted checks written after June 30, 2006 were posting back to the year ending June 30, 2006. As a result, the balance of cash and accounts payable changed several times during fieldwork.

We recommend the Academy work with its software company to investigate and solve this problem as soon as possible.

Board of Directors
Pontiac Academy for Excellence
November 7, 2006
Page Three

Prepaid Expenditures and Deferred Revenue

We noted that the balance of prepaid expenditures and deferred revenue from the fiscal year ended June 30, 2005 had not been cleared out at June 30, 2006. We also noted that a portion of the prepaid expense was from the June 30, 2003 fiscal year.

A portion of the deferred revenue was found to be from federal grants. Because of the lack of reversing the deferred revenue, additional time and delay in completing the audit was spent in determining whether these funds had been spent on a timely basis and in an appropriate manner. We did find that the deferred revenue from the June 30, 2005 year appeared to be spent timely and appropriately.

We recommend that all balance sheet accounts be reviewed on a monthly basis and adjustments made to reverse or clear accounts each month.

Payroll Expenditures

When testing payroll tax expenditures we were unable to reconcile the employer share of social security and unemployment expense. Upon further investigation, we found that the payroll service company used by the employee lease company had not calculated the employer share of social security and unemployment expense properly.

We recommend that the Academy monitor the payroll reports for accuracy.

Invoice Filing

We noted that some vendor invoice files had multiple years and duplicate invoices contained within the file. Because of this, it was difficult to determine, at times, which invoices had been paid and which fiscal year they pertained to.

We recommend that once a fiscal year has been closed, vendor invoices for that year be stored and vendor files only contain current year invoices. In addition, we recommend that, in most cases, only one copy of each invoice be maintained in the vendor file.

Board of Directors
Pontiac Academy for Excellence
November 7, 2006
Page Four

Eligibility for Free and Reduced Lunch

Per our conversation with the Michigan Department of Education, we understand that a sample of income eligibility from the free and reduced lunch applications should be tested October 1 through November 15 each year. We did not find that the Academy had completed this test.

We recommend the Academy contact the Michigan Department of Education for guidance on the procedures for testing income eligibility.

Roster of Approved Free and Reduced Applicants

We were unable to match monthly rosters of free and reduced applicants to approved applicants on file because these rosters were not retained by the Academy. The Academy's computer software was unable to reproduce accurate rosters at the time of fieldwork.

We recommend the Academy consult with the Department of Education to review all documentation required to be kept on file.

We will review the status of these issues during our next audit engagement.

This report is intended solely for the information and use of the Academy, management, and others within the organization. We have already discussed many of these comments and suggestions with management and we will be pleased to discuss them in further detail at your convenience.

Gardner, Provenzano, Schauman & Thomas, P.C.

Certified Public Accountants